POB(96) 5th PO96/49 to 54

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POST OFFICE BOARD

Minutes of the meeting held on 7 May 1996, at Post Office Headquarters, London

Present

Sir Michael Heron Chairman

Mr R C Close Managing Director Finance

Mr J E Cope Managing Director Strategy and Personnel

Dr D Grieves

Sir Christopher Harding

Mr P J Howarth Managing Director Royal Mail

Mr A J Roberts Chief Executive
Mr R G Osmond Secretary
Mr S Childes Notes

Also Present

Mr T Brown POCL)

Mr R Dykes Managing Director, POCL) (for item Mr R Peaple POCL) PO96/52)

Mr S Sweetman Managing Director designate, POCL)

Apologies PO96/49

The Board noted that Mr Allen was unable to attend

PETER HOWARTH PO96/50

The Board <u>congratulated</u> Peter Howarth on his imminent retirement and <u>thanked</u> him for his distinguished service to the Post Office over forty years and in particular for his contribution to the work of the

Board over the past five years

JERRY COPE PO96/51

The Board congratulated Jerry Cope on his appointment to the Board and welcomed him to his first meeting

CITO

INDUSTRIAL RELATIONS IN ROYAL MAIL

PO96/52

The Board <u>noted</u> Mr Roberts' oral report on the current state of industrial relations in Royal Mail, the main points from which were that

- (i) intensive discussions with the CWU had continued until the previous week, including a meeting at General Secretary/Managing Director level on 1 May. Despite this, the CWU were now arranging to hold a ballot of their members on or about 13 May though it was not yet clear how the ballot question was to be framed;
- (ii) it was expected that the result would be available on 2
 June, during the CWU Annual Conference, and that if a
 strike were called this could be expected to begin in the
 middle of that month;
- (iii) a key meeting would be held in Royal Mail on the following day to discuss the Business's PR strategy, and in particular the importance of being able to explain simply to the press what the Business expected from "flexibility" and of highlighting the extent of what was on offer from the Business in terms of job security and other benefits

noted further that

(iv) Mr Roberts would make a fuller report to the Board at its next regular meeting on 14 May

BA/POCL AUTOMATION POB(96)33

PO96/53

The Board <u>recalled</u> its previous discussion (PO95/116) noted Mr Roberts' paper and in particular that

- (i) following prolonged and intensive work in POCL and the Benefits Agency, authority was now being sought to proceed to the contract award stage of the counter automation project;
- (ii) the project would involve the automation of all counter positions in all Post Offices and a new card based benefit encashment service. There would be important opportunities for new business as a result of automation, with clearly identified scope for an increase in volume of 20% by the millennium, most of which would require,

or be enhanced by, automation;

- (iii) automation was moreover considered to be important to POCL's infrastructure for the future, and would serve to secure its largest client, the Benefits Agency, thereby reducing the risk of losing significant levels of business to ACT;
- (iv) an eight year contract was proposed, with private sector financing and involvement envisaged under PFI rules. The Project Evaluation Board and MaPEC had now considered in depth bids from three potential suppliers (coded A, B and C) and had evaluated them against a base case in which the extension of automation in POCL would be limited and incremental. The base case assumptions had been independently reviewed by Coopers and Lybrand and were considered to be as robust as possible. An option funded solely by the Post Office had also been considered, under which substantially greater risks remained with POCL, although the Government was not expected to approve a conventional public sector funding approach;
- (v) the evaluation showed that there was a positive return at 12% for all three bidders, ranked B, C and A in descending order of preference. Independent commercial lawyers had reviewed the bids to identify any significant non-compliance with contract requirements, and had ranked the bids in the order B, A, C, recommending that C should not be awarded the contract because of an unacceptable degree of non-compliance. A was regarded as deficient against several key requirements. While this was insufficient to rule it out completely, a considerable price advantage over B would be required for A to be preferred;
- (vi) in terms of risk transfer it has been concluded by
 Charterhouse that B was close to the degree of risk
 transfer sought and that it would secure PFI clearance.
 In this regard C appeared to accept some fraud risk, but
 other conditions associated with volume quantification
 and RPI linkage rendered its risk transfer position less
 clear-cut, while A's tender offered very limited risk
 transfer and was not likely to satisfy PFI requirements:
- (vii) the Joint Steering Committee, which included representatives from DTI, DSS and the Treasury, and which was jointly chaired by POCL and BA had concluded that the bids from A and C were

unacceptable, and had endorsed the view of the Programme Evaluation Board that on financial and non-financial criteria the contract should be awarded to B. MaPEC's endorsement was subject to a number of specific conditions;

noted in discussion that

- (viii) the project had benefited from a degree of sophisticated control superior to that generally experienced in the past, and the work involved in this had been fully justified by the way in which the final approval stages had been completed with a considerable level of confidence;
- (ix) the previously reported outstanding commercial obstacles with BA had been resolved to POCL's satisfaction;
- (x) there was a degree of technical risk with whatever system was adopted, not least because of the size of the proposed network. Extensive internal and external technical advice had been sought, and it had been concluded that there were no inherent technical problems with the system of the preferred supplier. Any risks arising from the scale of magnitude of the project were to a considerable extent covered by provisions in the proposed contract not to make payments to the supplier until contract parameters were met. The system envisaged by B had moreover been proven in operation, albeit on a somewhat smaller scale. Whilst B's plan to have a number of sub-centres arguably increased complexity, it should enable any problems to be contained within a limited area rather than affecting the whole network, as with the wholly centralised systems proposed by A and C;
- (xi) issues of fraud risk fell into two categories, limit of liability and categories of risk accepted by tenderers. B was the most compliant in this respect and generally met POCL's expectations. The potential for fraud would in any event be significantly reduced under automation, from the present estimated potential level of £150m to around £15m. Proposals for sharing risk with BA were regarded by POCL as acceptable;
- (xii) there was real potential for new business under a fully automated system, for example for banking and savings services, not excluding the possibility of providing

counter services to one or more of the joint stock banks as they reduced their own networks. Physical capacity might in practice prove to be more of a limitation than any constraints of the automated system;

(xiii) the major remaining problem was the difficulty which had arisen in Northern Ireland, where the SSA was apparently not prepared to pay the same price as that agreed with BA. Although the amounts involved were small (£1-2m a year or some £10m over the life of the contract) the SSA claimed that the Northern Ireland budget could not accommodate the costs, particularly given the new strains arising from a security situation less favourable than foreseen when the Province's budget was set. The financial projections for the project excluded the 'at risk' revenue from Northern Ireland. Nevertheless, the options of either conceding the SSA's claim or proceeding without Ulster (initially at least) were both unattractive, having on the one hand commercial, and on the other political, implications. The Chairman had already alerted DTI to the problem and high level political discussions were understood to be taking place in an attempt to find a way of relieving the Northern Ireland budget problem. In the view of the Board it would be quite unacceptable to make any price concession to the SSA. It would therefore be important either for the issue to be resolved before the Secretary of State for Social Security announced any go-ahead for the project (which he wished to do on 15 May at the NFSP Conference) or for any agreement to be subject to such resolution, whether or not that proviso were made public. There were mixed views about the desirability of accepting an arbitrated settlement, not least because DTI and DSS were thought to be sympathetic to the Post Office's position and because this would take the pressure off any political moves to resolve the problem;

AGREED

(xiv) that resolution of the Northern Ireland problem should be remitted to the Chairman, the Chief Executive and the Managing Director POCL, without whose agreement the Board would not endorse any announcement of a goahead for the project;

noted

(xv) MaPEC approval subject to the conditions set out in para 16 of the paper and annexed to these minutes;

(xvi) proposed total POCL programme expenditure, inclusive of sunk costs, or £15.8m;

AUTHORISED

- (xvii) devolvement to MaPEC for full authority of future programme management costs;
- (xviii) POCL to proceed to full contracts with BA and the successful supplier, subject to satisfactory progress on the Northern Ireland problem

DATE OF NEXT MEETING

PO96/54

The Board <u>noted</u> that the next meeting was scheduled for 14 May 1996.